



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

November 12, 2002 

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Western Bank Of Chinook, National Association
Charter Number 13837**

**327 Indiana Street
Chinook, MT 59523**

**Office of the Comptroller of the Currency
Salt Lake City Field Office
2795 Cottonwood Parkway, Suite 390
Salt Lake City, Utah 84121**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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Institution's CRA Rating

This institution is rated Satisfactory.

Western Bank of Chinook, N.A.'s (WBC) lending performance in relation to assessment area credit needs is satisfactory. The following information further describes WBC's performance under the Community Reinvestment Act.

- WBC's loan-to-deposit ratio is reasonable given the bank's size, location, and financial condition.
- The bank originates a substantial majority of its loans within the assessment area.
- WBC demonstrates a willingness to extend loans to small farms and businesses of different sizes, particularly to those that have annual revenues of less than \$500,000.

Description of Institution

WBC is a community bank located in Chinook, Montana. As of September 30, 2002, the bank had \$30 million in assets and net loans totaling over \$23 million, or 77 percent of total assets. WBC has one office and a cash dispensing machine at the local motel. WBC neither opened nor closed any branch offices during the evaluation period.

Citizens Development, a five-bank holding company located in Billings, Montana, owns 85 percent of the bank's stock. The remaining ownership is distributed among the bank's directors and various other shareholders.

The bank's primary lending focus is on agriculture, commercial loans, and commercial/municipal leases. Table 1 lists the composition of the bank's loan portfolio by loan type as of September 30, 2002.

Table 1 AVERAGE LOAN PORTFOLIO COMPOSITION September 30, 2002	\$ (000)	Percent
Real Estate Loans		
1-4 Family Residential Properties Secured by First Liens	1,302	6
Farmland	5,208	24
Non-farm Non-residential Properties	434	2
Agricultural Loans	5,208	24
Consumer Loans	1,735	8
Commercial Loans	2,604	12
Municipal Loans	868	4
Leases	4,340	20
Total	21,699	100%

Source: Consolidated Report of Condition for September 30, 2002

The bank provides a full range of depository services and products. No financial, legal, or other impediments limit the bank's ability to meet the credit needs of its assessment area. WBC received a Satisfactory rating at the March 2, 1998, CRA examination.

Description of the Assessment Area

WBC's assessment area (AA) consists of Blaine County, Montana. The AA meets the requirements of the area. Blaine County is in the extreme north-central area of Montana. It is bordered by the Province of Saskatchewan, Canada on the north, Hill and Choteau Counties on the west, the Missouri River and Phillips County on the south, and Phillips County on the east. Blaine County consists of three block-numbering areas (BNAs), two of which are designated at moderate income and one is designated middle income. There are no low-income BNA's. The county is comprised of 2,730,880 acres with a population of 7,009. The primary land use is agriculture. Agricultural property is made up of dry cropland producing mostly wheat and barley, irrigated cropland producing primarily alfalfa hay, grass hay, and small grains. The county seat of Chinook, population 1,512 and the town of Harlem, population 882, are the main service centers in the county. Fort Belknap Indian Reservation is a part of Blaine County. The Fort Belknap Tribal Council and the Bureau of Indian Affairs administer the Indian Lands. The U.S. Department of Housing and Urban Development (HUD) lists the AA's updated median family income (MFI) as \$38,600 for 2001, and the U.S. Census Bureau lists the percentage of households below the poverty level as 25.2 percent. The median housing value in the AA was \$40,496, according to the U.S. Census Bureau.

Table 2				
1990 CENSUS DATA				
Income Level	Percent of MFI	Income Range	Families	
			Number	Percent
Low-Income	Less than 50%	< \$19,300	730	31
Moderate-Income	At least 50% and less than 80%	\$19,300 - \$30,879	425	18
Middle-Income	At least 80% and less than 120%	\$30,880 - \$46,319	502	21
Upper-Income	120% and over	>\$46,319	728	30

Source: U.S. Census Bureau, 1990 Census Data

The dominant industries based on number of jobs in the MSA are services, government, and agriculture. The AA's 2001 unemployment rate was 4.4 percent compared to the State of Montana's unemployment rate of 4.5 percent for the same period.

The financial services sector is competitive. The June 30, 2002, FDIC Deposits Market Share Report shows three financial institutions competed for \$54.5 million of insured deposits. WBC holds 49 percent of total FDIC insured deposits within the AA. WBC is also the only bank headquartered in Blaine County. Excluded in this report is a local credit union headquartered outside the AA. Data was unavailable on deposits held within the AA by the credit union.

We made one community contact with a five-county wide economic development organization. The contact indicated the financial institutions within the community meet the business and agricultural needs of the community. However, affordable housing may be an issue in some parts of the community. The contact indicated the agricultural economy is depressed, primarily due to the continuing negative impact of drought conditions.

Conclusions about Performance Criteria

The evaluation of the bank's lending performance is based upon the review of loans originated in 2001 and 2002. The tables included in this section use cumulative data from these two years.

For purposes of this review, we determined the bank's primary loan types are agricultural operating lines of credit or term loans, loans secured by agricultural real estate and commercial loans. These loans comprise 60 percent of the bank's average gross loan balances. Commercial and municipal leases comprise 20 percent. However, these loans are outside the bank's AA and were not included in the sample. These leases were made in an effort to improve earnings by investing excess funds in higher yielding products. To obtain our sample, we randomly selected 25 agricultural loan originations, 24 agricultural real estate loan originations, and 22 commercial loan originations for a total of 71 loans sampled.

Loan-to-Deposit Ratio

WBC's loan-to-deposit ratio is reasonable given the bank's size, location, and financial condition. We identified three banks similarly situated to WBC; i.e., similar size, location, and financial condition. The bank's average loan-to-deposit (LTD) ratio for the eight quarters beginning September 30, 2000 was 77.1 percent. The peer group average for the same period is 73.2 percent.

Lending in Assessment Area

WBC originates a substantial majority of its loans within its AA. Based on our sample of loans originated, WBC makes 85 percent of originations within the AA by number of loans and 83 percent of originations within the AA by dollar amount. Our sample consisted of 60 loan originations selected over the evaluation period. We randomly selected 20 loans each from three of the bank's primary lending categories, agricultural operating and term loans, agricultural real estate, and commercial loans.

Table 3								
TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Agricultural	18	90	1,397	96	2	10	52	4
Agricultural Real Estate	17	85	2,885	76	3	15	930	24
Commercial	16	80	733	91	4	20	71	9
Total Reviewed	51	85.0	5,015	83	9	15	1,053	17

Source: Examiner loan sample.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The bank's lending patterns reflect a good distribution of loans to small farms and to individuals of different income levels.

WBC is located in a predominately farming/ranch community. The bank's lending practices reflect its commitment to small farms and small businesses. As shown in Table 4, all agricultural and agricultural real estate loan originations in our sample were to entities with gross annual revenue of less than \$500,000. As shown in table 5, 86 percent of commercial loan originations by number, were to businesses with gross annual revenue less than \$500,000.

Table 4 BORROWER DISTRIBUTION OF LOANS TO AGRICULTURAL AND AGRICULTURAL REAL ESTATE BORROWERS				
Revenues	Loan Distribution by Number of Loans		Loan Distribution by Dollar Amount of Loans	
	Number	Percent	Dollar Amount	Percent
\$0 – 100,000	20	51	1,739,464	33
\$100,001 – 250,000	14	36	2,062,282	39
\$250,001 – 500,000	5	13	1,453,530	28
\$500,001 – 1,000,000	0	0	0	0
More than \$1,000,000	0	0	0	0
Total	39	100	5,255,276	100

Source: Examiner loan sample.

Table 5 BORROWER DISTRIBUTION OF LOANS TO COMMERCIAL BORROWERS				
Revenues	Loan Distribution by Number of Loans		Loan Distribution by Dollar Amount of Loans	
	Number	Percent	Dollar Amount	Percent
\$0 – 100,000	7	50	238,895	23
\$100,001 – 250,000	4	29	214,035	21
\$250,001 – 500,000	1	7	74,621	7
\$500,001 – 1,000,000	2	14	500,264	49
More than \$1,000,000	0	0	0	0
Total	14	100	1,027,815	100

Source: Examiner loan sample

In addition, WBC makes a substantial number of consumer loans for original amounts less than \$2,500. Of the 209 consumer loans made during the last ten months of 2001 and the first ten months of 2002, 66, or 32 percent, were for less than \$2,500. The average size of these loans was less than \$1,300. By using size as a proxy for income of the borrower, the bank demonstrates its commitment to meet the credit needs of the AA's low- and moderate-income borrowers.

Geographic Distribution of Loans

The bank's geographic distribution of loans is reasonable. We tested the bank's geographic distribution using our sample of agricultural, agricultural real estate, and commercial loan originations. There are no low-income tracts within the AA. WBC's loan penetration to the moderate-income tracts, as represented in our sample, fell below demographics. This situation is not unreasonable as WBC's only location is situated in the AA's county seat. The city of

Chinook falls completely within the middle-income tract. The moderate-income tract starts approximately 15 miles to the east of Chinook. The moderate-income tracts encompass the town of Harlem and Fort Belknap Indian Reservation. These two communities are 25 miles east of Chinook. Native Americans comprise 63 percent of the two moderate-income BNAs. Harlem is within two miles of the reservation with one financial institution, which services the town and reservation. Three financial institutions in the town of Malta (located outside of the AA) also service the moderate-income tracts. Additionally, the reservation has access to specialized lending groups. These include the Bureau of Indian Affairs, Bear Paw Economic Development Corporation, and the Small Business Development Corporation, which also provides small business counseling.

Table 6 GEOGRAPHIC DISTRIBUTION OF AGRICULTURAL AND BUSINESSLOANS		
BLOCK NUMBERING AREA INCOME LEVEL	Loan Sample Distribution by Income Level	AA Block Numbering Area Distribution by Income Level
Low	N/A	N/A
Moderate	20%	67%
Middle	80%	33%
Upper	N/A	N/A

Source: Loan sample and 1990 U.S. Census data.

Responses to Complaints

WBC has not received any complaints about its performance in helping to meet assessment area credit needs during this evaluation period.

Fair Lending and the PE

An analysis of public comments and consumer complaint information from the past four years was performed according to the OCC's risk based fair lending approach. Based on analysis of this information, the OCC concluded that a comprehensive fair lending examination would not be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed in March 1998.